

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 PA-01 PRS-01 H-01 /095 W
-----141150Z 039716 /10

P R 140848Z JAN 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 4766
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
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LIMITED OFFICIAL USE SECTION 1 OF 3 TOKYO 0640

DEPT PASS TREASURY, CEA AND FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EIN, JA
SUBJECT: JOF BUDGET PROPOSALS

1. SUMMARY: MOF PROPOSALS FOR FY 1977 BUDGET WHICH WENT TO CABINET JAN 13 CAN BE JUDGED AS SUPPORTIVE OF SOMEWHAT MORE RAPID ECONOMIC EXPANSION IN COMING FISCAL YEAR. ANSWER TO MORE DIFFICULT QUESTION -- EFFECT OF PLANNED DEGREE OF EASING OF FISCAL POLICY ON PROSPECTS OF ACHIEVING GOVT GROWTH TARGET -- DEPENDS HEAVILY UPON HOW BUDGET IS RECEIVED, BECAUSE OF IMPORTANCE OF PSYCHOLOGICAL FACTORS IN CURRENT ECONOMIC ENVIRONMENT. IF CONSENSUS IS THAT BUDGET REPRESENTS ADEQUATE RESPONSE, IT MAY HAVE DESIRED IMPACT IN BOLSTERING PRIVATE SPENDING AND INVESTMENT PLANS. IF IT IS HEAVILY CRITICIZED, IT MAY NOT. FIRST REACTIONS IN JAPAN ARE GENERALLY UNDERSTANDING BUT NOT ENTHUSIASTIC. IN ANY CASE,
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AS EXPECTED, FUKUDA HAS PLACED HIS BETS ON EXPENDITURE INCREASES, PARTICULARLY FOR PUBLIC WORKS, RATHER THAN TAX CUTS, AS BEST WAY TO EASE FISCAL POLICY. GOVT MAKES NO SECRET OF FACT THAT THIS BUDGET REPRESENTS ALL THEY FEEL THEY CAN DO, AND BY IMPLICATION NOT NECESSARILY ALL THEY WOULD HAVE DONE ABSENT CONSTRAINTS. END SUMMARY.

2. AFTER PRESENTATION TO CABINET JAN 13, GOVT RELEASED MOF PROPOSALS FOR JAPAN FY 1977 BUDGET (BEGINNING APRIL 1). BETWEEN RELEASE DATE AND JAN 20, WHEN CABINET SCHEDULED TO APPROVE BUDGET FOR FORWARDING TO DIET, VARIOUS MINISTRIES WILL MAKE THEIR LAST-DITCH PLEAS IN ATTEMPT TO CORRECT PERCEIVED WRONGS INFLICTED UPON THEM BY FINANCE MINISTRY IN BUDGET-MAKING PROCESS TO DATE. THESE DEBATES MAY LEAD TO CHANGES IN APPROPRIATIONS FOR INDIVIDUAL MINISTRIES, BUT MAIN BUDGETARY AGGREGATES, AND THE REVENUE PROPOSALS NOW AVAILABLE, SHOULD BE MAINTAINED BY GOVT AND THUS PROVIDE AN ADEQUATE BASIS FOR JUDGING INITIAL GOJ FISCAL POLICY STANCE IN FY 1977. PRINCIPAL CAVEATS TO KEEP IN MIND ARE THAT GOVT HAS NOT YET GIVEN ITS VIEWS ON NEED FOR SUPPLEMENTAL BUDGET IN NEXT FISCAL YEAR, AND THERE MAY BE ADJUSTMENTS IN FISCAL LOAN AND INVESTMENT PROGRAM AUTHORIZATIONS, EITHER AS RESULT OF CABINET DELIBERATIONS OR SUBSEQUENTLY BY GOVT SHOULD IT DECIDE TO EXERCISE ITS STANDBY AUTHORITY TO INCREASE MOST FLIP AUTHORIZATIONS UP TO 50 PERCENT WITHOUT GOING TO DIET. (FLIP IS GOVT CAPITAL ACCOUNT, SEPARATE FROM GENERAL ACCOUNT, FINANCED PRIMARILY BY POSTAL SAVINGS, PENSION FUND AND OTHER SIMILAR RECEIPTS.)

3. MAIN OUTLINES OF BUDGET ARE GIVEN IN TABLES AT END OF THIS MESSAGE. KEY ELEMENTS MAY BE SUMMARIZED AS FOLLOWS:

A. GENERAL ACCOUNT EXPENDITURES SCHEDULED TO RISE BY 17.4 PERCENT; EVEN AFTER ADJUSTMENT FOR INFLATION THIS REPRESENTS SUBSTANTIAL RATE OF INCREASE.

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B. FISCAL LOAN AND INVESTMENT PROGRAM AUTHORIZATIONS INCREASED BY 12.1 PERCENT, WHICH TRANSLATES INTO A MODERATE INCREASE IN REAL TERMS.

C. TAKEN TOGETHER, GENERAL ACCOUNT AND FLIP AUTHORIZATIONS ARE UP 15.8 PERCENT OVER INITIAL FY 1976 LEVELS, SOMEWHAT FASTER THAN THE PROJECTED 13.7 PERCENT INCREASE IN PROJECTED NOMINAL GNP.

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-----141150Z 039804 /12

P R 140848Z JAN 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 4767

INFO AMEMBASSY BONN

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DEPT PASS TREASURY, CEA AND FEDERAL RESERVE

D. BORROWING THROUGH BOND ISSUES TO FINANCE GENERAL ACCOUNT

BUDGET DEFICIT IS SCHEDULED TO RISE FROM YEN 7,275 BILLION

BY INITIAL FY 76 BUDGET TO YEN 8,480 BILLION IN NEXT

FISCAL YEAR, REMAINING, AS IN CURRENT FY, SLIGHTLY UNDER

30 PERCENT OF GENERAL ACCOUNT EXPENDITURES.

E. REVENUE PROPOSALS FEATURE CUT IN CENTRAL GOVT PERSONAL

INCOME TAX OF YEN 353 BIL, PARTIALLY OFFSET BY VARIOUS TAX

INCREASES ESTIMATED AT YEN 168 BIL IN NEXT FISCAL YEAR.

IN ADDITION, LOCAL INCOME TAXES (LOCAL INHABITANTS TAX)

EXPECTED TO BE REDUCED ABOUT YEN 80 BIL. TAX ACTIONS

THUS AMOUNT TO A NET REDUCTION OF ABOUT YEN 265 BIL FOR

FY 1977.

4. BUDGET PRESENTED A YEAR AGO CONTAINED PROPOSED

EXPENDITURE INCREASES OF ABOUT 14 PERCENT IN BOTH GENERAL

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ACCOUNT EXPENDITURES AND FLIP PROGRAMS. BY THIS STANDARD

NEW BUDGET IS SOMEWHAT MORE EXPANSIONARY THAN CURRENT YEAR

BUDGET AS PRESENTED. PROBABLY LESS SIGNIFICANTLY, THE

BUDGET DEFICIT IS SCHEDULED TO INCREASE BY 16.6 PERCENT

THIS FISCAL YEAR.

5. OBSERVERS' INTERPRETATIONS OF ADEQUACY OF NEW BUDGET

STIMULUS COULD BE PARTICULARLY IMPORTANT IN CURRENT ENVIRON-

MENT, IN WHICH CONFIDENCE FACTORS LOOM SO IMPORTANTLY. IN

PARTICULAR, WHETHER BUSINESSMEN RESPOND POSITIVELY AND

EXPAND INVESTMENT PLANS COULD DEPEND HEAVILY ON CONFIDENCE FACTORS. BUSINESS HERE APPEARS TO BE GIVING RESTRAINED APPROVAL TO BUDGET, APPLAUDING DECISION TO STRESS PUBLIC WORKS, BUT EXPRESSING SOME CONCERN ABOUT SMALL SIZE OF TAX CUT AND POSSIBLE DIFFICULTY LDP MAY FACE IN GETTING BUDGET THROUGH DTE. PRESS, WHICH NEARLY ALWAYS ASSUMES ROLE OF GOVT CRITIC, ALSO IS GRUMBLING THAT STIMULUS SEEMS INSUFFICIENT AND FOCUS DOES NOT MEET NEEDS OF SOCIAL WELFARE, BUT IS NOT REALLY ATTACKING BUDGET HEAD ON.

6. TAX CUTS OBVIOUSLY DO NOT FIGURE IMPORTANTLY IN GOVT'S PLAN TO STIMULATE ECONOMY. INCOME TAX REDUCTIONS ARE OF THE MINI-CUT VARIETY, BASICALLY DESIGNED TO COMPENSATE FOR THE IMPACT OF INFLATION ON TAXPAYERS. VEHICLE FOR CUTS EFFECTIVELY IS INCREASE IN LEVEL AT WHICH TAXES BEGIN TO BE LEVIED. TAX INCREASES FALL HEAVILY ON BUSINESS, AND REFLECT SUBSTANTIAL REFORM ELEMENTS. DETAILS WILL BE REPORTED SUBSEQUENTLY, BUT FROM MACRO POINT OF VIEW CONCLUSION MAY NOW BE DRAWN THAT GOVT IS NOT COUNTING TO ANY SUBSTANTIAL DEGREE ON TAX CUT TO STIMULATE CONSUMER DEMAND. SHOULD BE NOTED THAT INCOME TAX CUT IS PERMANENT MEASURE. ESTIMATE IS THAT IN SECOND YEAR CENTRAL GOVT TAX CUT WILL BE WORTH YEN 316 BIL.

7. NEXT YEAR'S BUDGET OPENLY FORMULATED IN CONTEXT SOME FAMILIAR CONSTRAINTS. GOVERNMENTAL STATEMENTS IN CONJUNCTION LIMITED OFFICIAL USE

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WITH THE BUDGET PROCESS MAKE CLEAR THAT THERE IS NOT ONLY CONCERN ABOUT GETTING THE ECONOMY OUT OF THE RECOVERY PAUSE BUT ALSO ABOUT INFLATION. THE GOVT, PARTICULARLY MOF, DOES NOT HIDE ITS COMMITMENT POLITICALLY TO RESTRAINING GOVT BORROWING TO FINANCE THE GENERAL ACCOUNT DEFICIT TO NO MORE THAN 30 PERCENT OF TOTAL EXPENDITURES. IMPLICATION OF GOVT POSITION AND STATEMENTS IS THAT THEY WOULD HAVE OPTED FOR MORE EXPANSIONARY BUDGET HAD THEY CONSIDERED IT ECONOMICALLY AND POLITICALLY FEASIBLE. BUDGET REPRESENTS RATHER CLEARLY ALL GOVT FEELS IT CAN DO IN PRESENT CIRCUMSTANCES.

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-----141144Z 041123 /12

P R 140848Z JAN 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 4768

INFO AMEMBASSY BONN

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DEPT PASS TREASURY, CEA AND FEDERAL RESERVE

8. FOLLOWING IS MOF PROPOSED GENERAL ACCOUNT BUDGET FOR JFY 77:

	PERCENT	FROM	
	AMOUNT IN CHANGE	JFY 76	
	BIL YEN	INITIAL	REVISED
REVENUES	20,034.3	17.7	16.0
(TAXES & STAMP			
RECEIPTS)	(18,240.0)	17.5	17.5
(OTHER RECEIPTS)	(1,724.4)	17.1	17.1
(CARRIED OVER SURPLUS)	(69.9)		
EXPENDITURES	28,514.3	17.4	15.7
PUBLIC BOND PROCEEDS	8,480.0	16.6	15.0

9. FOLLOWING ARE GENERAL ACCOUNT BUDGET EXPENDITURES BY

FUNCTION: PERCENT CHANGE FROM

PRIOR YEAR

JFY 1977

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	(IN BIL YEN)	JFY 77	JFY 76
TOTAL	28,514.3	17.4	14.1
SOCIAL SECURITY	5,629.0	17.1	22.4
EDUCATION AND SCIENCE	3,370.4	11.3	14.7
NATIONAL DEBT	2,348.7	41.1	60.2
PENSIONS AND OTHER	1,103.3	11.7	30.7
LOCAL FINANCE	4,882.6	23.9	MIN11.0
NATIONAL DEFENSE	1,690.6	11.8	14.0
PUBLIC WORKS	4,201.1	19.1	21.2
ECONOMIC COOPERATION	206.4	4.8	3.6

OTHERS	4,532.2	-	-
RESERVES	350.0	-	-
NOT ALLOCATED YET	200.0	-	-

10. FOLLOWING IS MOF PROPOSED FISCAL LOAN AND INVESTMENT PROGRAM
FOR JFY 1977:

	PERCENT CHANGE		
	JFY 1977	FROM PRIOR YEAR	
	IN BIL YEN	JFY 77	JFY 76
FLIP - TOTAL	11,907.6	12.1(1/)	14.1
HOUSING	2,898.0	20.1	20.9
TRANSPORTATION & TELE-			
COMMUNICATION	1,237.5	2.0	2.4
ROADS	885.0	9.9	8.2
FOREIGN TRADE AND ECONOMIC			
COOPERATION	966.0	11.2	21.3
OTHERS	5,921.1	-	-

1/ INCREASE OVER REVISED FY 1976 FIGURE IS 4.6 PERCENT.

11. FOLLOWING ARE PRINCIPAL PROPOSALS FOR TAX CHANGES REVENUE
ESTIMATES FOR INDIVIDUAL PROPOSALS OTHER THAN PERSONAL INCOME TAX
CUT NOT AVAILABLE):

FY 1977
IMPACT ON
REVENUES
(BIL YEN)

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PERSONAL TAX REDUCTION (INCREASE BASIC DEDUCTION,
FAMILY DEDUCTION AND SPECIAL DEDUCTION FOR
SURVIVORS, AGED AND HANDICAPPED) MIN 353
LOCAL INCOME TAX REDUCTION (LOCAL INHABITANTS TAX) MIN 80
VARIOUS TAX INCREASES (AFFECTING TAXATION OF
VARIOUS SPECIAL BUSINESS ALLOWANCES AND RESERVES,
INTEREST AND DIVIDEND INCOME, REGISTRATION,
LICENSE AND STAMP TAXES AND CORPORATE
ENTERTAINMENT EXPENSES) AND DECREASE
IN COMMODITY TAX ON AUTO PURCHASES MEETING
POLLUTION CONTROL STANDS PLUS 168

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BUDGETS, POLICIES, ECONOMIC CONDITIONS, DATA
Control Number: n/a
Copy: SINGLE
Sent Date: 14-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TOKYO00640
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770014-0823
Format: TEL
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770149/aaaabquc.tel
Line Count: 323
Litigation Code IDs:
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Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: f22371d9-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 14-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3589801
Secure: OPEN
Status: NATIVE
Subject: JOF BUDGET PROPOSALS
TAGS: EFIN, JA
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/f22371d9-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009